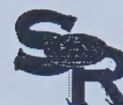


1996 Annual Report



STERLING RESOURCES LTD.

FORMERLY PEOPLES OIL LIMITED



MESSAGE TO SHAREHOLDERS:

The Company's year-end has been changed from October 31 to December 31 and, accordingly, the attached financial report covers the period from November 1 to December 31, 1996. Also, our name change to Sterling Resources Ltd. was approved at the Annual General Meeting of the Shareholders on February 10, 1997, and shares will trade on the Alberta Stock Exchange under the symbol "SLG".

During the November 1 to December 31 period, the Company has been positioning itself for growth consistent with its new strategy, and has put in place the remaining administrative and personnel changes required to achieve it. To compliment our management team, Mr. Richard Willson has been hired as Vice-President, Exploration. Mr. Willson brings an excellent record of success to the Company.

Our strategy is to build a steady cash flow in Canada that can be used partially to finance our international activities. Our focus for growth will be international where we will take small working interests in high potential plays.

In Canada we have evaluated our existing assets at Keho, Alberta, and drilling licenses are in place for two wells on 100% owned lands. One will target Sunburst gas, the other Bow Island oil. A seismic program is underway to delineate a second Sunburst play, and workovers are planned on existing producers. In east central Alberta, we plan to utilize proprietary geological knowledge to develop new light oil plays at Halkirk.

Internationally, Sterling announced in March that it entered into an agreement with a third party to purchase their 10% interest in two exploration licenses in the Romanian Black Sea. The closing of the purchase is conditional upon consents and approvals from participants and government agencies.

To finance the project, in February the Company closed a financing with ARC Financial Corporation that raised \$5,002,500 through the placement of 3,450,000 units. Each unit consisted of 1 common share and .9 warrants exercisable over the next two years at a price of \$1.75. We are pleased to report as part of the financing that Mr. Philip C. Swift, Managing Director of ARC Financial Corporation, has joined the Board of Directors.



FINANCIAL REVIEW

Revenue from operations for the two month period ended December 31, 1996 was \$38,755 compared with \$106,822 for the twelve month period ended October 31, 1996. In November, the North Keho gas plant and two wells were placed on stream, resulting in an increase in production and operating costs. Interest revenue decreased due to declining interest rates.

Net loss for the two month period was \$32,062 compared with a net loss of \$403,743 for the preceding twelve month period. The financials reflect positive adjustments for over-payment of operating costs in 1995 and 1996 (\$32,699) and for well bore equalization costs at 6-6-12-21W4M (\$31,250).

OUTLOOK FOR 1997

With active programs already underway in southern Alberta and Romania, and others being evaluated for participation, we expect 1997 to be an active year with excellent potential for adding shareholder value.

On behalf of the Board of Directors,

A handwritten signature in black ink, appearing to read 'R. Welty', written over a horizontal line.

R.G. Welty
Chairman

A handwritten signature in black ink, appearing to read 'B. Sherley', written over a horizontal line.

B.W. Sherley
President and C.E.O.

April 14, 1997



KPMG
Chartered Accountants

1200 205 - 5th Avenue SW
Calgary Alberta T2P 4B9

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AUDITORS' REPORT TO THE SHAREHOLDERS

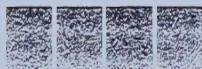
We have audited the balance sheets of Sterling Resources Ltd. (formerly Peoples Oil Limited) as at December 31, 1996 and October 31, 1996 and the statements of operations and deficit and changes in financial position for the two months ended December 31, 1996 and for the year ended October 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and October 31, 1996 and the results of its operations and the changes in its financial position for the two months ended December 31, 1996 and for the year ended October 31, 1996 in accordance with generally accepted accounting principles.

Chartered Accountants

Calgary, Canada
February 5, 1997



Member Firm of
KPMG International

STERLING RESOURCES LTD.

(formerly Peoples Oil Limited)

Balance Sheets

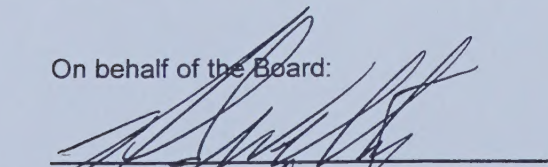
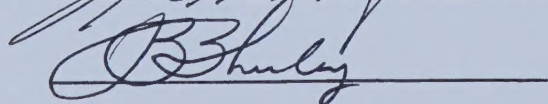
	December 31, 1996	October 31, 1996
Assets		
Current assets:		
Cash and term deposits	\$ 895,261	\$ 940,737
Accounts receivable	122,996	56,716
	1,018,257	997,453
Petroleum and natural gas properties (note 3)	302,354	352,140
Other	24,013	19,563
	\$ 1,344,624	\$ 1,369,156

Liabilities and Shareholders' Equity

Current liability:		
Accounts payable	\$ 22,990	\$ 20,845
Provision for future site restoration	48,725	43,340
Shareholders' equity:		
Share capital (note 5)	2,385,634	2,385,634
Deficit	(1,112,725)	(1,080,663)
	1,272,909	1,304,971
Commitments (note 6)		
Contingency (note 7)		
Subsequent events (note 8)		
	\$ 1,344,624	\$ 1,369,156

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

STERLING RESOURCES LTD.

(formerly Peoples Oil Limited)

Statements of Operations and Deficit

	Two months ended December 31, 1996	Year ended October 31, 1996
Revenues:		
Oil and gas, net of royalties	\$ 25,915	\$ 44,908
Processing	8,117	1,859
Interest	4,723	60,055
	38,755	106,822
Expenses:		
General and administrative	47,840	253,209
Production costs	22,904	33,899
Production cost recovery	(32,699)	-
Depletion and depreciation	32,772	223,457
	70,817	510,565
Net loss	(32,062)	(403,743)
Deficit, beginning of year	(1,080,663)	(676,920)
Deficit, end of year	\$ (1,112,725)	\$ (1,080,663)
Loss per share	\$ (0.01)	\$ (0.11)

See accompanying notes to financial statements.

STERLING RESOURCES LTD.

(formerly Peoples Oil Limited)

Statements of Changes in Financial Position

	Two months ended December 31, 1996	Year ended October 31, 1996
Cash provided by (used in):		
Operations:		
Net loss	\$ (32,062)	\$ (403,743)
Depletion and depreciation	32,772	223,457
	710	(180,286)
Net changes in non-cash working capital balances	(64,135)	(56,155)
	(63,425)	(236,441)
Financing:		
Common shares, net of issue costs	-	27,000
Investments:		
Additions to petroleum and natural gas properties	(8,795)	(112,871)
Additions to other assets	(4,902)	(10,464)
Proceeds on disposition of petroleum and natural gas properties	31,646	-
	17,949	(123,335)
Decrease in cash and term deposits during the period	(45,476)	(332,776)
Cash and term deposits, beginning of period	940,737	1,273,513
Cash and term deposits, end of period	\$ 895,261	\$ 940,737

See accompanying notes to financial statements.

STERLING RESOURCES LTD.

(formerly Peoples Oil Limited)

Notes to Financial Statements

For the two months ended December 31, 1996 and the year ended October 31, 1996

1. Significant accounting policies:

(a) Petroleum and natural gas properties:

The Company follows the full-cost method of accounting for oil and gas operations in accordance with the Canadian Institute of Chartered Accountants Accounting Guideline "Full Cost Accounting in the Oil and Gas Industry". Capitalized costs are limited to undiscounted estimated future net revenues, using year end prices, from production of proven reserves, after applicable income taxes and general and administrative expenses.

Costs incurred are being depleted on the unit-of-production method based on estimated gross proven reserves as determined by independent engineers. Oil and natural gas reserves and production are converted into equivalent units based on their estimated relative energy content.

(b) Future site restoration costs:

Future site restoration and reclamation costs are amortized using the unit-of-production method. These costs are based on year-end estimates of the anticipated costs of site restoration.

(c) Joint venture accounting:

Substantially all of the Company's exploration activities are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

(d) Net earnings (loss) per share:

Net earnings (loss) per share is calculated using the weighted average number of shares.

(e) Measurement uncertainty:

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and the provision for future site restoration and reclamation costs are based on estimates. The ceiling test calculation is based on estimates of proved reserves, production rates and oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

STERLING RESOURCES LTD.

(formerly Peoples Oil Limited)

Notes to Financial Statements, page 2

For the two months ended December 31, 1996 and the year ended October 31, 1996

2. Related party transactions:

Mon-Oil Limited, a company controlled by a former officer and director, provided management services to the Company during the period in the amount of \$nil (year ended October 31, 1996 - \$65,300).

During the fiscal year ended October 31, 1996, the Company entered into a consulting agreement with the former officer and director whereby the Company has agreed to pay a monthly consulting fee of \$4,167. For the two months ended December 31, 1996 consulting fees paid totalled \$8,333 (year ended October 31, 1996 - \$20,833). The agreement expires May 1998.

3. Petroleum and natural gas properties:

	December 31, 1996	October 31, 1996
Oil and gas properties	\$ 1,395,498	\$ 1,418,348
Less accumulated depletion and depreciation	(1,093,144)	(1,066,208)
	\$ 302,354	\$ 352,140

4. Income taxes:

	Two months ended December 31, 1996	Year ended October 31, 1996
Provision (recovery) for income taxes based on combined basic Canadian Federal and Provincial tax rate of 44.6%	\$ (14,300)	\$ (166,700)
Changes in income taxes resulting from:		
Non-deductible crown payments, net	500	5,000
Accounting loss not recognized	13,800	161,700
	\$ -	\$ -

STERLING RESOURCES LTD.

(formerly Peoples Oil Limited)

Notes to Financial Statements, page 3

For the two months ended December 31, 1996 and the year ended October 31, 1996

5. Share capital:

(a) Authorized:

Unlimited common shares without nominal or par value

(b) Issued:

	Number of Shares	Amount
Common shares:		
Balance, October 31, 1995	3,470,003	\$ 2,358,634
Exercise of stock options	90,000	27,000
Balance, October 31 and December 31, 1996	3,560,003	\$ 2,385,634

As at December 31, 1996 the Company has outstanding options to issue common shares to the following:

	Number of Shares	Exercise Price Per Share
Director	50,000	\$ 0.30
Directors and employee	175,000	\$ 0.42
Employee	150,000	\$ 0.56
Employee	10,000	\$ 0.48
Employees	135,000	\$ 0.56

During the two months ended December 31, 1996 options for 285,000 common shares were granted.

6. Commitments:

The Company has future lease commitments for office premises and equipment over the next two years as follows:

1997	\$ 29,000
1998	34,000

STERLING RESOURCES LTD.

(formerly Peoples Oil Limited)

Notes to Financial Statements, page 4

For the two months ended December 31, 1996 and the year ended October 31, 1996

7. Contingency:

On June 26, 1996, the Company filed a statement of claim against the operator of its major oil and gas properties. The claim is for non-payment of accounts relating to net revenues from joint venture oil and gas operations, estimated by management to be approximately \$73,000. In response to this claim, the operator filed a statement of defense and counterclaim on September 13, 1996 for approximately \$198,000 alleging non-payment of operating expenses incurred by the operator on behalf of the Company as well as other losses and damages suffered as a result of the Company's alleged misconduct. The Company's management is of the opinion that the counterclaim of the operator is without merit.

8. Subsequent events:

- (a) On January 30, 1997, the Company entered into an agreement with ARC Financial Corporation ("ARC") whereby ARC and subscribers arranged by ARC will acquire 3,450,000 units comprised of one common share of the Company and .9 transferable share purchase warrants at a price of \$1.45 per unit for total consideration of \$5,002,500. Each warrant will entitle the holder to purchase one share of the Company for an additional \$1.75 consideration per share. Estimated costs of the issuance are \$325,000.
- (b) On November 11, 1996, the Company entered into an Employment Agreement with an executive whereby he was granted, by way of a private placement, 500,000 common shares of the Company for consideration of \$280,000. Two Subscription Agreements were entered into whereby the Executive agreed to acquire the 500,000 common shares of the Company. Payment for 200,000 common shares was made by the executive and the Company agreed to advance \$168,000 for the purchase of 300,000 common shares of the Company. The note bears interest at 5% per annum payable monthly. The principal sum is repayable on demand after December 31, 1999. The 500,000 common shares of the Company were subscribed to subsequent to year end.

9. Comparative figures and change in year end:

Certain of the prior period figures have been reclassified to conform with the current period presentation. The Directors of the Company have approved a change in year end to December 31.